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# How To Get A Great Deal On A New Car

**W**hether you think of your car as an object of love or view it merely as a way to get somewhere, having a brand new one is bound to give you a lift. But that pleasure can be tainted by thoughts about the cost—both the thousands of dollars you must pay for the vehicle and the emotional cost of coping with the hassles of making the purchase or lease.

Fortunately, there's a way to avoid the hassles and get a great price. The key is competition. Get new car dealers to bid competitively for your business.

*CHECKBOOK's* CarBargains and LeaseWise services, which are now used by roughly 5,000 consumers nationwide each year, get these consumers great prices on new cars. We charge \$165 for the CarBargains service and \$290 for the LeaseWise service. You can use the same general approach and get a very good price on your own. What follows is advice that comes out of the experience of these services.

You may have had friends tell you about sitting eyeball to eyeball for hours with new car dealers.

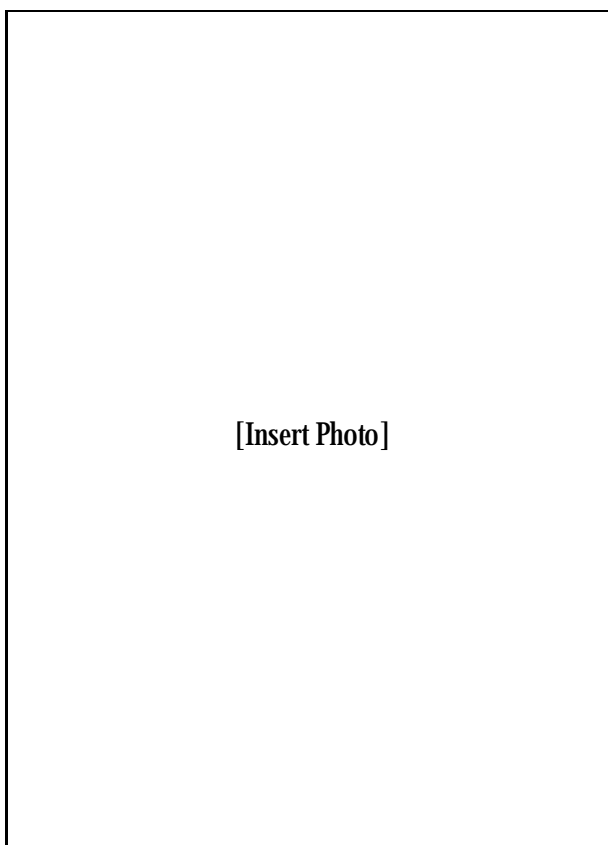
It's nonsense. They wasted their time.

The only leverage any customer has with a new car dealer is the possibility that he or she will walk out—and either buy a car from another dealer or not buy one at all.

To get a good deal, you need to simply set up a competitive bidding process. You have to be careful, thorough, and persistent, but you don't have to know all the intricacies of the car business.

You can start the bidding process for a *purchase* after you've decided on the make, model, and style of car you want (Ford Taurus, four-door sedan LX, for example). You don't have to know the exact factory-installed options you want on the car. For a *lease*, you will also need to know the length of time you will want to lease and roughly how many miles you expect to drive the car during that time.

It's best to conduct the bidding process by



[Insert Photo]

phone. If you try to do it in person, you'll waste many hours, and you'll have difficulty persuading salespersons that you're really serious about leaving and getting other dealers' prices.

When you call dealers, ask to speak with the "fleet manager," if there is one. The fleet manager's usual job is to coordinate sales of two or more cars at a time, so some dealerships don't allow a fleet manager to deal with retail customers. Your next best choice is a "sales manager." But the advantage of dealing with a fleet manager is that, unlike sales managers and salespersons, the fleet manager's commissions tend to be based primarily on sales volume—as opposed to gross profit per vehicle sold.

In this article, we first describe the approach to

use if you want to *purchase* the car—with or without financing. Then we describe the additional steps needed for the much more complex process of *leasing* a car. You will need to read the section on purchasing even if you want to lease, since most of the advice on purchasing applies to leasing as well. We will also compare our recommended approach to other widely-touted buying strategies, such as using Internet "buying services," using auto brokers, and buying from one-price dealers. Finally, we will discuss the auto industry's current efforts to make effective price shopping difficult.

## Purchasing a Car

*(please read this even if you plan to lease)*

We recommend getting bids from at least five dealers. Get each dealer to bid an amount above or below the "factory invoice price." The factory invoice price is the same for all dealers in the same region. So if one dealer bids \$500 above invoice and a second bids \$500 below invoice, you'll know the second is \$1,000 lower priced than the first. With this approach, you don't have to decide the exact options you want until after the bidding is complete.

The "Information Resources" box on page 12 tells you where you can get information on factory invoice prices. But you don't really have to have the invoice price information in advance; just explain to each dealer that you will expect to be shown the actual factory invoice for any car you consider buying.

You can use Worksheet 1 on page 6 and Worksheet 2 on page 7 to collect the information from each dealer. Here's the basic approach:

*"I'm in the market for a (make/model/style) and I've made a list of dealers to call—including one that's*

*out of the local area. I've done some homework, and I know the approximate invoice cost of the car. What I'm doing now is calling each dealer on my list to find out what each wants as a markup or markdown from factory invoice cost. I would expect to be able to take my pick of any car on your lot of the make, model, and style I'm looking for at the markup or markdown you quote. So that everyone is on a level playing field, I'm calling each dealer only once, and I'm not saying what any other dealer is bidding.*

*"To be sure everyone is quoting on the same basis, I need to go over with you exactly what charges show up on your factory invoice. Does the invoice show a dealer advertising association fee? How much is that? How about dealer preparation charges, port charges, or other miscellaneous charges? I assume you will let me see a copy of the invoice for any car I pick out to buy.*

*"Before we talk about your markup or markdown from invoice, tell me whether or not there are any charges that you will expect me to pay for document preparation or other services even though they are not listed on the factory invoice? Also, are there any dealer add-ons, like rustproofing, pinstripes, or wheel locks, that I'll be required to pay for even if I don't want them?*

*"Are there any important options I might want that you will have to install because they are not installed at the factory and don't show on the factory's invoice?"*

(For some makes, important options are dealer-installed. For example, some manufacturers don't offer air conditioning as a factory-installed option on some basic styles. If you are interested in such dealer-installed options on these cars, you'll need to find out each dealer's charge to provide them. The "Information Resources" box on page 12 gives you an approach for finding out whether there are options that are typically dealer-installed on the vehicle model you are interested in.)

*"Is there a factory-to-customer rebate in effect on this car? Please don't take any customer rebate into account in your bid; I assume I'll get the rebate as a further discount.*

*"Okay, I think that's all I needed to go over. Now, what is the best markup or markdown from invoice you'll give me, assuming that I buy within the next 30 days?..."*

*"What if I don't see the car I want on your lot but I still want to buy my car from you? Will you exchange cars with another dealer in order to get me the car I want? Will you still honor the bid you just gave me if you have to get the car from another dealer? If not, how will you figure the additional charge for this dealer exchange? What if I want to factory-order a car? How will that affect your price commitment?"*

Once you have the bids collected from your phone calls, it is a good idea to request that the lowest bidders confirm their bids by sending you a fax or e-mail.

You **can** go through the bidding process with each dealership. Don't be intimidated. If you don't understand something or if answers seem fuzzy, ask again. You will almost certainly save hundreds of dollars—many buyers will save thousands of dollars—by following this process.

#### ***What if the dealers won't give me a price?***

There are many excellent dealers that will respect your businesslike approach and respond in kind. But some dealers may not be so helpful. You may get responses like—

- "I'll beat any price you get. Call other dealers and then call me back."
- "What do you think is a fair markup? You tell me."
- "We don't quote prices over the phone. Just come in and I'll give you the best deal in town."

Let these dealers know: if they don't bid, they have no chance for your business. Be businesslike and persistent. If a dealer won't give you a serious bid, go on to the next dealer.

#### ***What does "factory invoice price" really mean? Aren't there hidden kickbacks?***

The "factory invoice price" is theoretically what the dealer paid the manufacturer for the car. The dealer will actually have a printed invoice that shows this price figure. It is less than the "manufacturer's suggested retail price" (MSRP), which is the "list price" shown on the window "sticker" of the car and is the price for which the manufacturer theoretically thinks the car should be sold to you.

Actually, almost all cars are sold below the manufacturer's suggested retail price, and some cars are sold to customers below the factory invoice price. In fact, over the years, between 25 percent and 45 percent of our CarBargains customers, depending on market conditions at the specific time, have gotten bids below factory invoice price. In some cases, the bids are several thousand dollars below invoice.

How is it possible for a dealer to sell a car below

the factory invoice price? It is possible because the factory invoice usually doesn't reflect the true cost to the dealer: dealers often get "holdbacks," end-of-year carryover allowances, factory-to-dealer incentive payments, and other allowances that reduce the cost below what the factory invoice shows. Although the factory invoice price is not the dealer's true cost, it is a useful figure because for identical cars it is the same for all dealers. That's why you can use it as a reference point for dealers' bids.

#### ***How do rebates and incentives work?***

If a car manufacturer offers a factory-to-customer rebate, you will be able to get this rebate directly from the manufacturer, or you can have the dealer apply the rebate to your purchase price, further reducing the price of the car.

In contrast, a factory-to-dealer incentive payment, sometimes referred to as a "dealer rebate," is money the factory gives the dealer for each car sold. The dealer can keep the money as profit—or the dealer can pass this money along to you as a price reduction. One of the purposes of the bidding process is to use competition to prod dealers to give this incentive money—which sometimes is \$500, \$1,000, \$2,000, or even more—to you as a price reduction. The "Information Resources" box on page 12 tells you how to get information on rebates and incentives.

#### ***What Are Dealer Advertising Association Fees?***

Most dealerships belong to regional associations that handle advertising for their make of car within the region. The cost of this advertising is divided among the members and, for most makes, appears as a charge on the vehicle invoice. All, or nearly all, dealers that are in the advertising association for a region will have the same advertising association fees shown on the invoices prepared by the car's manufacturer. Theoretically, a dealership could choose not to participate in the advertising association for its region and thus avoid these fees, but that is very rare.

Most sources that provide information on MSRP and invoice prices (see the "Information Resources" box on page 12) don't include information on advertising association fees since these sources distribute their information nationwide and the fees vary from region to region. You don't really have to know the fee for your model of vehicle to compare dealer prices so long as you shop dealers only in a single region. They will all have the same fee. But you will eventually have to know the fee in order to figure the final price for your car. You will be able to see the fee when you look at the dealer's invoice for the vehicle you finally select, but you might want to figure the total price of the vehicle based on independent invoice price information even before talking to the dealer. That is why our script for your call to dealers includes a question about dealer advertis-

ing fees; you will be able to add this fee information to the invoice price information you get from the sources in the box on page 12 in order to know in advance the full invoice price that will be shown on the dealer's actual invoice.

Dealer advertising association fees don't show on the window sticker (MSRP) because these fees are included—and not broken out specifically—in the markup between invoice and sticker price.

### **What is a good price?**

There's no one answer to this question. The right price depends on supply and demand at the moment for the specific car you want. Some consumer-advice articles and books give guidelines like the following: "Shoot for \$150 to \$300 over invoice for a mid-size car in good supply." Ignore such advice. The only way to know what you should pay is to get dealers to bid. Our CarBargains service gets many bids hundreds or thousands of dollars *below* invoice, but for some vehicles, we are lucky to get bids a thousand dollars or more *above* invoice.

### **Do I have to know more about prices and costs to get a good deal?**

The more you know about factory-to-dealer incentive payments, "holdbacks," and other allowances the dealer will receive, the better off you'll be. It is also helpful to know the current market—the best prices cars like yours have recently been selling for. Our CarBargains bidders

get better bids than you are likely to get because they have this information. We publish a newsletter, called *CarDeals*, on rebates and incentives (and we sell this information as a syndicated newspaper feature to the *Chicago Tribune*, *Detroit News*, *San Jose Mercury News*, and other newspapers). We also know what prices we are getting for the same car for other customers around the country, so if we don't get a price as good as what we are getting elsewhere, we know to push for additional bids.

But without devoting your entire life to car buying, you can't hope to know about all the available allowances and current selling prices. You have to count on competition—and the fact that no dealer knows how much the next dealer will give away—to drive down the price to a satisfactory level. Competition will work for you.

### **What if a dealer won't live up to its bid?**

With our CarBargains service, this almost never happens—about once per thousand customers (we give back the customer's CarBargains fee and encourage the customer to use the next lowest bidder). But dealer renegeing could be a problem for individual buyers. The best approach to avoid it is simply to be very businesslike in getting your bids. Deal only with a sales manager or fleet manager. Review the details of the bid by phone with the dealer. If you have access to a fax machine, have the low bidder fax a confirmation;

or if you have e-mail, ask the low bidder to e-mail a confirmation. If a dealer tries to renege or make changes, take your business to the next lowest bidder. Dealers will seldom quote prices that are better than what they can live with—so long as you make clear at the outset that any attempts to bump up the quoted price before purchase will result in the loss of your business.

### **Why don't I need to know the exact options I want?**

You are better off not to limit dealers' bids to a specific set of options or a specific color. Factory-installed options will have the same invoice price regardless of which dealer you use. Get each bidding dealership to make its markup or markdown commitment applicable to any car of your make, model, and style, regardless of the options the car has. Then you can decide later which factory-installed options you want and add the invoice cost of these options to the base invoice price of the car to get the total invoice price of the car you actually want. The dealer's markup or markdown commitment will be relative to this total invoice price.

This approach allows dealers to bid even if they don't have a car with a specific option that you might have requested but that might not be of great importance to you. It would be a shame to rule out a low-priced dealer just because the dealer didn't have a vehicle with a particular convenience-light option that you would like but don't have to have. Also, you might change your preferences on options at the last minute; you want the dealer to be committed to a price level relative to other dealers regardless of which specific vehicle—with which specific options—you finally choose.

Once you have your bids, you can call the low bidder to check what specific options and colors are available on cars that are on its lot or that it can get for you.

Dealer-installed options require a somewhat different approach. Some manufacturers—particularly Acura, Honda, and Volvo—are set up for a number of important options on some models to be installed by dealers. So there is no factory invoice price for these options. If you think you might want one or more of these dealer-installed options, you will have to get prices for the options from each dealer. See the "Dealer-Installed Options" heading in the "Information Resources" box on page 12 for an approach to finding out whether there are options that are typically dealer-installed on the vehicle model you want.

### **Shouldn't I consider which dealer offers the best repair service?**

Your new car warranty will require you to use a dealer for covered repairs. For this warranty service, you'll naturally want to use a dealer that is conveniently located and that does high-quality

TABLE 1

## **Monthly Payment Per \$1000 of Loan**

<b>Interest Rate (APR)</b>	<b>Duration of Loan</b>			
	<b>24 months</b>	<b>36 months</b>	<b>48 months</b>	<b>60 months</b>
1%	\$42.10	\$28.21	\$21.26	\$17.09
2%	\$42.54	\$28.64	\$21.70	\$17.53
3%	\$42.98	\$29.08	\$22.13	\$17.97
4%	\$43.42	\$29.52	\$22.58	\$18.42
5%	\$43.87	\$29.97	\$23.03	\$18.87
6%	\$44.32	\$30.42	\$23.49	\$19.33
7%	\$44.77	\$30.88	\$23.95	\$19.80
8%	\$45.23	\$31.34	\$24.41	\$20.28
9%	\$45.68	\$31.80	\$24.89	\$20.76
10%	\$46.14	\$32.27	\$25.36	\$21.25
11%	\$46.61	\$32.74	\$25.85	\$21.74
12%	\$47.07	\$33.21	\$26.33	\$22.24
13%	\$47.54	\$33.69	\$26.83	\$22.75
14%	\$48.01	\$34.18	\$27.33	\$23.27
15%	\$48.49	\$34.67	\$27.83	\$23.79

Calculation of amount of loan you can afford: (monthly payment you can afford *divided by* monthly payment per \$1000 of loan) *times* \$1,000.

Example, for a \$250-per-month payment on a 48-month loan at a 10% interest rate: (\$250 *divided by* \$25) *times* \$1,000 *equals* \$10,000.

Amount you can afford to borrow

Monthly payment you can afford

From table for 10% rate for 48-month loan

repair work. But you don't have to have warranty repairs done at the dealership that sells (or leases) you the car. Your manufacturer will reimburse any of its franchised dealers for your repair work.

So you can buy your car at the dealership that gives you the best price, then have repairs made at a different dealership if the other dealership is more convenient and does better work.

A dealer with a good repair shop is likely to give you good service even if you didn't buy there. Dealers make money on repairs and won't want to lose your repair business.

### **How should I deal with financing trade-in, and other extras?**

You don't want to lose the benefit of a good price on a new car by paying too much for financing, for an extended service contract, and for rustproofing, paint sealant, and other add-ons. You also don't want to get too little for your used car trade-in, if you have one.

Notice that in the language we recommend for your use in the bidding process there is no mention of financing, extended service contracts, or a used car trade-in. Keep these matters out of the discussion until you have a firm price agreement. Then discuss these other matters with the dealer before you put down a deposit.

Talking about trade-in or financing while you are still negotiating on your new car price will simply confuse matters. The dealer will give you a good price on one part of the deal while making it up on other parts. There will be too many balls in the air, and dealership personnel will be better at juggling them than you are. If you are asked whether you have a trade-in, explain that you've been planning to sell your old car on your own. If you are asked whether you will need financing, say that you have arranged for that separately.

The key point is this: financing, purchase of an extended service contract, sale of your old car, and other matters can all be dealt with as completely separate business matters—and they should be.

There is nothing wrong with doing business with your new car dealer on these extras so long as you keep them separate—and so long as you are well prepared. Dealers commonly make more money on the extras than they do on the sale of new cars. Before you go to a dealership to complete your new car purchase, you must know the true market value of all the extras you are interested in.

### **Financing**

It is especially important to check financing options in advance. Serious money is at stake. For a 48-month, \$15,000 loan, for example, your total payments will be \$684 higher if you get a 10 percent interest rate than if you get an eight percent rate.

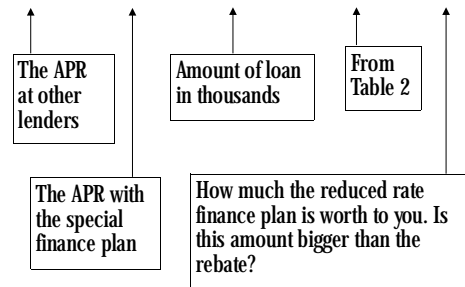
Check the annual percentage rate (APR) currently being offered by banks in the area. If you

are a member of a credit union, check its rate. There are several institutions that offer auto loans nationally. One that historically has had relatively good rates is United Services Automobile Association (USAA), which can be reached at 800-531-2265. You can either borrow from USAA or use its rates to size up the rates offered by local banks and by dealers.

So that you will be sure you have an acceptable financing option, it's a good idea actually to get a loan approval somewhere else before making your final deal on your new car. You can still opt for the dealership's financing plan if the APR it offers is better.

Car manufacturers often offer special financing plans, sometimes as an alternative to cash rebates. If you are given a choice, you must decide whether the financing plan is a better deal than the cash rebate. The answer depends on the size of the rebate, the manufacturer-offered plan's APR, the APRs available from other lenders, the amount you'll be borrowing, and how long a period you'll be borrowing for. Table 2 gives you factors to use to figure the value of a special financing plan. For example, the table tells you that for a 48-month loan, each percentage point you cut your APR is the equivalent of a car price discount of about \$20.50 per \$1,000 of loan.

To illustrate, assume you could get a \$20,000, 48-month loan from a bank at an eight percent APR, and that the special manufacturer-offered plan's rate is 3.9 percent. The savings from using the factory plan would be estimated as follows:  
 $(8 \text{ minus } 3.9) \text{ times } 20 \text{ times } \$20.50 = \$1,681.$



**TABLE 2**

**Calculation factors: how much a one percentage point interest rate discount is worth per \$1,000 of loan**

<i>Duration of loan (months)</i>	<i>Factor</i>
24	\$10.50
36	\$15.50
48	\$20.50
60	\$25.50

### **Extended Service Contracts**

If you are considering an extended service contract, you'll definitely want to shop other sources before discussing the subject with your new car dealer. Extended service contracts yield big profits for the dealers that sell them and the extended service contract companies that back them. On a contract for which you pay \$800, the average payout for claims might be less than \$200, with the rest going to sales and administrative costs and profit.

Many new cars are very reliable, so there are few service claims. Also, many cars now carry long manufacturer warranties covering many service problems and leaving little to be covered by the extended service contract.

If you decide, despite these facts, that you want to purchase one of these service contracts, check carefully exactly what is covered. Almost all contracts exclude from coverage maintenance and wear items, ranging from brake parts to exhaust system components to air filters. And many contracts exclude—or fail to include—electrical devices like power windows and radios, interior trim, gauges, and even air-conditioning systems. Some contracts cover the cost of towing and a rental car but others do not. Some contracts cover parts but not all the labor necessary for diagnosis and repair. And most contracts require you to pay a "deductible" amount for each repair—in some cases, as much as \$100—before the service contract company pays anything.

Be sure to check where you can get repairs done—at the selling dealer only, at any dealer of your make of car, at any new car dealer, or at any new car dealer or independent repair shop. Since consumers tend to be more satisfied with repairs at independent shops than with dealer repairs, it's good to have the option of using an independent shop.

Also, check how the shop will be paid. Under some contracts, the shop simply bills the contract company; under others, you must pay the shop, then seek reimbursement—often long-delayed—from the contract company. Even if a service contract company says shops can bill it directly, check with repair shops you might use to be sure they will in fact bill the contract company; many shops have long since decided not to put up with the hassle of collecting from service contract companies.

Finally, be sure the service contract company is financially sound. There have been periods in past years when many of these companies have gone out of business, rendering their contracts worthless. You are probably safest with a service contract backed by an auto manufacturer like Ford or General Motors or with one backed by a long-established service contract company like Ryan.

**A key point:** even if you want an extended service contract, you don't have to buy it where you buy your car or where you intend to have it repaired. You can buy a Toyota, for example, from

one Toyota dealer, buy a Toyota-backed service contract from a different Toyota dealer, and have your car fixed at still another Toyota dealer. We have found cases where one dealer was selling a contract for under \$400 while another was selling the exact same contract for more than three times that amount.

Also, you don't have to buy your service contract at the time you buy your car. Many types of contracts are available from dealers for a year or more after the new car is purchased. So you can take your time making a decision.

Before you go to a dealer to purchase a car, check other dealers for the prices and coverage of their service contracts. Then you'll be able to use these alternative vendors either to help you negotiate a good service contract price from your dealer or to supply you a contract if your dealer won't meet the competition.

In *CHECKBOOK*, Volume 9, No. 3, we wrote in more detail about service contracts. We reported

the results of a nationwide bidding process in which we got dealers to compete on how inexpensively they would offer *CHECKBOOK* subscribers the major car makers' extended service contracts. There is a factory invoice cost for these contracts just as there is for all other factory-supplied products new-car dealers sell, and we got dealers to commit to selling their service contracts for just \$25 to \$50 above this invoice cost. Buying from one of the low-quoting dealers listed in that article is likely to save you several hundred dollars compared to what you would otherwise have to pay. You can find an updated version of the article on our Car-Bargains Website at [www.carbargains.org](http://www.carbargains.org).

#### Other Add-Ons

If a dealer has already applied rustproofing, paint sealant, or fabric protection, you will have to pay for these treatments, but they will almost certainly be overpriced. When dealers have outside vendors come to the dealership to apply these

treatments on cars, the total cost to the dealer is usually less than \$50 per car. If a dealer tries to charge you more than that, you can regard the cost simply as an extra markup. It's better to buy from a dealer that applies these treatments to cars only after a customer requests them.

With regard to rustproofing, there are special problems. Many manufacturers recommend *against* dealer-installed rustproofing. Most say such rustproofing is unnecessary, and some are concerned that it will block weepholes and actually *contribute* to rust or jam seat belt stopper mechanisms in treated car body cavities.

Burglar alarm systems, wheel locks, and other add-ons may be worthwhile, but find out what other dealers and independent shops will charge for these items, if you want them, before discussing them with the dealer where you plan to buy. Again, you can use the other firms' prices as a negotiating standard or you can simply buy the add-ons from the other firms.

<b>Worksheet 1: Dealer-to-Dealer Purchase Price Comparison Computation</b>	<i>Name of Dealer:</i>				
1. Dealer's markup/markdown from invoice cost if you find the vehicle you want on the dealer's lot. (This is the key figure on which dealers will differ. Since dealers get holdbacks and may get other types of allowances, the dealer may be able to sell the vehicle for less than invoice cost, in which case this will be a <i>negative</i> figure.)					
2. <b>Add or subtract:</b> any adjustment to the markup/markdown in item 1 if the car has to be factory-ordered or secured by dealer exchange. (These adjustments won't apply if you find the car you want on the dealer's lot, but find out by phone in advance how much they will be and apply them later if you can't find the car on the dealer's lot.)					
3. <b>Add:</b> charges for miscellaneous services and required dealer add-ons not included on the invoice. (Some dealers will charge extra for "document preparation," "dealer prep," or other services. Some will put rustproofing, paint sealant, pinstripes, wheel locks, and other add-ons on their cars and charge you for them even if you don't want them. Such fees and dealer-applied add-ons are not included in the books or printouts that give factory invoice costs. So you have to find out from each dealer if it has such charges and how much the charges are.)					
4. <b>Add:</b> charges for dealer-installed options you want. (Some manufacturers don't install some types of important options, such as air conditioning or a CD changer. Since you have to have the dealer install these options, the prices for the options are not on the invoice and are not the same at all dealers. So you have to find out from each dealer the prices for any of these options you want.)					
5. <b>TOTAL: Figure to use for dealer-to-dealer price comparisons.</b> (This is the sum of items 1 to 4, above.)					
6. <b>Cutoff date for the dealer's commitment.</b> (Find out how long the dealer will honor its markup/markdown commitment.)					
7. <b>Name of the fleet manager or sales manager who made commitment.</b> (This is the person you will see first when you go to the dealership to make your purchase.)					

### Your Trade-In

You can easily lose all the benefit of a good new car price by giving up your used car for too little. You can sell your used car at wholesale to a new car dealer's used car department or to an independent used car dealer. Think of a trade-in simply as a wholesale sale to the dealer where you buy your new car.

Before attempting to sell your car, make any minor, inexpensive repairs it needs and clean it up. Clean the interior, and wash and polish the outside. A spiffed up car not only looks and smells more appealing; it also suggests that you probably have taken care of what's under the hood.

To sell your car wholesale, just plan to take a few hours to visit several independent used car dealers and dealership used car departments. Include used car departments of dealerships that sell new cars of the same make as your used car. Explain to each what you are doing: shopping the car around to get the best offer.

Don't rely on used car valuation books—blue books, black books, or any other color—to determine the value of your used car. We use these and other sources to develop a *rough* estimate of the value of the customer's used car as a service to our CarBargains customers, and we make this striking observation: after asking all the right

questions and using the various sources with great care, we often find that the estimates derived from different sources for the same used car differ by more than 20 percent, which for some cars is more than \$2,000.

The only reliable way to find out what your used car is worth is to shop it around and see what you can get for it. If you go by a book, you may undervalue the car and give it away for far less than its worth or overvalue it and become frustrated trying to get a dealer to meet your estimate.

Only when you have offers in hand from other dealers are you ready to talk about a trade-in with the dealer where you plan to buy your new car. Ask what the dealer will give you for it. Don't reveal what your other offers are; the dealer may offer you more than anyone else has. If the dealer's offer is lower than your other options, ask the dealer to match them. If your new car dealer eventually offers a price as good as, or better than, what you can get elsewhere, you will probably want to go ahead with a trade-in. Otherwise, you will probably want to sell the car elsewhere.

There is one situation in which you might take a lower trade-in price from your new car dealer than the price you can sell the car for elsewhere. In states where a car buyer can deduct the value

of a trade-in from the purchase price of a new car before figuring the sales tax on the new car, it makes sense to take into account the amount of this tax savings when comparing a new car dealer's proposed trade-in price with the prices one can get elsewhere. But that is not the way taxes are figured in the District, Maryland, or Virginia. In this area, you pay the taxes on the new car and then deduct the trade-in or any other downpayment.

As you consider your options with your used car, you may want to think about selling your car retail to another consumer. You will get more by selling the car this way (typically \$1,000 to \$2,500 more for a late model vehicle), but this approach is more trouble than selling to a dealer.

Even if you do plan to sell on your own, it's a good idea to take the car around to a few used car dealers first. What the dealers will pay gives you a wholesale price as a reference point for setting your price and negotiating with potential buyers. You certainly won't want to sell the car to a consumer for less than the wholesale price. While you're visiting used car dealers, check what they are selling cars like yours for. Also, check ads for similar cars in newspaper classified sections, and check [www.cars.com](http://www.cars.com) on the Web for an extensive list of used cars for sale. You'll want to advertise

Worksheet 2: Total vehicle purchase price computation	Name of Dealer:				
1. <b>Total figure you used for dealer-to-dealer price comparisons.</b> (This is item 5 from Worksheet 1.)					
2. <b>Add:</b> factory invoice cost of base car. (If you will be getting this figure from a book, printout, or website, it will probably not include advertising association fees, certain port processing fees for some imported vehicles, and some other charges that do appear on the actual invoice the dealer gets from the factory. So you will want to ask each dealership if there are any fees that it will be able to <i>show you on the actual factory invoice</i> that don't show up on the invoices consumers can get from such published sources. Ask how much these fees are. They should be the same for all dealers in the same region.)					
3. <b>Add:</b> factory invoice cost of the options you want. (You will have to wait until you choose a specific vehicle to compute this figure. Then use a book, printout, or Web source or look at the dealer's actual invoice to add up the invoice cost of the options on the actual vehicle you have chosen.)					
4. <b>Total: cost of vehicle.</b> (This is the sum of items 1-3, above. It is what you will actually pay—and can't be determined until you have selected a specific vehicle. Remember, you will also have to pay for taxes and tags.)					
5. <b>Factory-to-customer rebate.</b> (You will want to find out from the dealer whether there is a factory-to-customer rebate on the make/model/style you are purchasing and when the rebate expires. If there is such a rebate, it will be available from all dealers in the same region and you should get it automatically. You can get the rebate as a check from the manufacturer or arrange for the dealer to get it and apply it as a downpayment or subtract it from the purchase price of the vehicle.)					

## Is It Better to Lease or to Purchase?

There is no right answer to this question. These are simply two different financing arrangements, with different pros and cons for different consumers and under different circumstances.

To decide which is best for you, it is important to understand how the two different financing arrangements work. With a lease, you borrow the full price of the car (adjusted for a downpayment and certain other factors) just as you might do with traditional financing. But with the lease, your payments don't include enough money to pay off the full amount borrowed; instead, you pay off a portion of the borrowed money each month to work your way down to a balance that equals the agreed residual value of the vehicle. Then, in effect, you pay off the remaining balance at the end of the lease in a single lump sum by turning in the vehicle.

Let's compare a 36-month lease and a purchase financed with a 36-month loan (see Figure 1). Assume you need to finance \$20,000, that the interest rate will be eight percent, either through the lease or through the loan, and that the residual value of your vehicle will be \$10,000 after 36 months. With the lease, the balance owed drops more slowly (reaching \$10,000 after 36 months) than with the traditionally financed purchase (where the balance reaches zero). The total finance charge you pay on the lease is about \$1,000 higher than what you pay on the loan, but the monthly lease payments are about \$249 lower than the monthly payments with the traditionally financed purchase.

So a big advantage of leasing for some consumers is that you can generally arrange a lease that allows you to pay less per month for a given vehicle than you would pay with traditional financing for the same vehicle.

Another advantage of a lease is that you don't have to sell the car at the end of the lease. You can simply turn it in to the leasing company. If you know that you will want a new car after, say, three years, you can lease for that period knowing that you can easily get rid of the car at the end of the lease. You don't have to worry what the car will be worth. In contrast, with a purchase, you have to trade in the car or sell it at whatever the market will bear.

In some states, leasing might seem to have an additional advantage: you

pay taxes only on your payments, not on the full purchase price of the vehicle. That is true in the District (not in Maryland or Virginia). But this apparent advantage is generally roughly offset by the fact that the tax rate on lease payments is higher than the tax rate on a purchase. In the District, for instance, you pay a 10 percent rate on lease payments and a six percent rate on the purchase price of an automobile.

Against the advantages of a lease, one must weigh the advantages of a traditionally financed purchase. A big advantage of a straight purchase is that it is easier to understand and easier to shop for. The complexity of leasing makes it easier for dealers to take you for a ride.

Another advantage of a purchase, whether you pay cash or get traditional financing, is that you end up with a valuable asset that belongs to you—the vehicle. After you have made all the payments on a traditional auto loan, you own the vehicle. In contrast, after you complete payments on an auto lease, you have to return the vehicle, lease it for an additional term, or find the money to purchase it. A traditionally financed purchase is a fiscally more conservative approach than a lease. With the purchase, you are investing in an asset; with a lease, you are not.

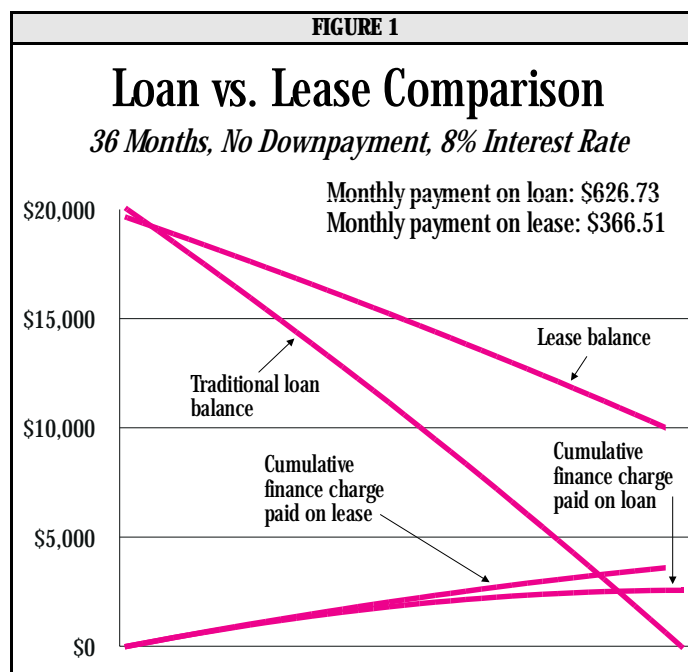
Also, with a traditionally financed purchase, you can set the level of body damage and liability insurance you want. A leasing company might require you to take a coverage limit or deduct-

ible level that costs more than what you would otherwise want.

In addition, with a traditionally financed purchase, you avoid exposing yourself to the possibility of excessive leasing company charges. A leasing company will charge you for excessive wear and tear on the vehicle when you turn it in. Some leasing companies charge more than customers think is appropriate, but fighting such charges is difficult. Also, some leasing companies charge more than the apparent actual cost to them if you exceed your contracted mileage or terminate the lease early.

Looked at purely as an investment decision, assuming you had plenty of resources to lease or purchase and you were just deciding where you wanted to put your money, a traditionally financed purchase (or outright purchase) is likely to be a better deal than a lease. Ordinarily the interest rate on vehicle financing (whether by lease or loan) will be higher than the return you can get on a completely safe investment. So the income you forego by taking money from such an investment to pay off a loan or lease balance will be less than the interest expense you will save by paying off the loan or lease balance. Accordingly, the faster you pay off the balance the better, and you will pay it off faster with a traditional loan than with a lease.

However you evaluate the pros and cons of leasing in the abstract, the desirability of leasing will be substantially affected by the specifics of available leases and purchase-finance deals. A lease might be a good option if a manufacturer is subsidizing leases—by offering lower-than-market interest rates or money factors, by offering higher-than-market residual values, or by offering factory-to-dealer incentives only in connection with leases. On the other hand, a traditionally financed purchase might be a good option if a manufacturer is offering factory-to-dealer incentives only in connection with purchases or if leasing companies are charging substantial fees to set up a lease. You have to check what is going on in the market at the time you are acquiring your vehicle to make a full assessment of the relative desirability of leasing versus a traditionally financed purchase.





your car at a price roughly in line with other prices advertised for similar cars.

You can advertise in a newspaper classified section, on various websites, on bulletin boards at work and at local stores, and by putting a sign in the car's window. Your ad can be brief, listing key pluses that aren't found on all cars, such as, low mileage, excellent condition, complete service records, or a CD player.

If you still owe money on the car, or if the buyer will be financing the car, your bank can advise you on procedures to handle the transaction. Require payment by cash or certified check.

### ***Is there a right time of the year to buy a new car?***

There's no sure way to predict. Guessing the car market is no easier than guessing the stock market.

Prices simply respond to supply and demand. When there is excess supply, dealers drop their prices and manufacturers throw in incentive programs to get the market moving.

To illustrate, several years ago our CarBargains service was getting bids \$600 below invoice on Honda Accords in June. Some buyers decided to wait until even later in the model year to have us shop. By late August, our best bids were \$600 higher—at invoice. Honda had simply cleared the market in early summer by offering dealers special incentive money. By August, supply was down and prices were up.

### ***Should I shop outside my local area?***

For most cars, it is sufficient just to reach out as far as necessary to include at least five dealers in the bidding process, but it won't hurt to include one that's a little farther away.

## **Leasing**

If you prefer to lease rather than purchase your vehicle, the process is considerably more complex. Since the purchase price of the vehicle you will be leasing (referred to as "the agreed upon value" in the lingo of leasing) is one of the key elements determining the cost of a lease, you will have to collect all of the information you would have to collect for a purchase. And since there are various other elements affecting the cost of a lease, you will have to collect a whole lot more.

We have advised that, when purchasing a vehicle, you should not discuss financing until you have settled on a purchase price. And we have advised shopping around for finance sources other than your dealer. If you want to lease, however, you will not be able to separate the financing (the lease contract) from the purchase of the car.

You won't generally be able to find a good purchase price at one dealer and then get a bank or credit union to buy the vehicle and lease it to you. For leases, banks don't typically market their

financing services directly to consumers. The bank or other lease financing source markets to the dealer and the dealer sets up the lease contract between you and the lease financing source. It wouldn't have to be that way, but that is the way the market has evolved.

As a result, you have to find a dealer that will give you a low price on your vehicle and will *also* give you a good deal on lease financing. That makes for complicated shopping. Dealers love this complexity. If you don't understand the entire transaction—or if you have a hard time keeping track of the details of lease financing as well as the price of the vehicle—the dealer can throw in costs without your even knowing it.

Competitive bidding is still the way to get a good deal, but in the bidding process, you have to ask both about purchase price *and* about lease features.

You can use Worksheet 3 on page 10 to collect information from dealers and calculate lease payments. This worksheet should help you understand how the various features of a lease are related. The questions and answers in the following section of this article will help you understand the different lease features.

The best approach is to shop for purchase price first and then for lease features—although sometimes the purchase price ("agreed upon value") will be different if the vehicle will be leased than if you will be making a simple purchase. Start with the purchase price bidding script given on page 2, with a minor modification in the first sentences:

*"I'm in the market for a (make/model/style). I may want to purchase it outright using my own financing or I may want to lease it. First let's talk about the price if I decide to purchase the car outright using my own financing. I've made a list of dealers to call [continue with purchase price script]..."*

After completing the purchase price script, continue—

*"Now let's discuss leasing. I need to ask you about the details of the lease options you offer."*

*"I would expect to take a \_\_\_\_\_-month lease and to drive approximately \_\_\_\_\_ miles per year. What lease financing source would you recommend for the vehicle model I am planning to get?"*

*"Does that lease source quote its financing charge as an Annual Percentage Rate of interest or as a money factor? What is the rate [or money factor]? What is the residual percentage on a lease of that duration? How many miles per year are included in that lease? What is the charge*

*per mile for miles in excess of the number included in the lease if I contract for those excess miles in advance? What is the charge per mile for miles in excess of the number included in the lease if I don't contract for those excess miles in advance? What is the assignment fee for the lease? Is gap insurance included in the lease? [If not,] how much does gap insurance cost? Is there a purchase option fee if I decide to purchase the vehicle at the end of the lease? Is there a disposition fee if I decide not to purchase the vehicle at the end of the lease?"*

*"Would the markup [markdown] from invoice you quoted on a purchase be the same for figuring the agreed upon value for this lease? [If not,] what would the change be? Would the factory-to-customer rebate you mentioned earlier apply even if I lease the vehicle?"*

It is a good idea to get the commitments from the lowest bidders confirmed by fax or e-mail.

When we get quotes from dealers for customers of our LeaseWise by CarBargains service, we first check our database of lease programs offered by more than 50 lease sources (such as, Ford Motor Credit, Chase Manhattan, Wells Fargo, and GE Capital) to identify the best programs (best combination of money factor, residual, etc.) so that we can ask dealers whether they offer these programs. In many cases, dealers will identify the best programs they can offer without such prodding, but a dealership may not be aware that a particular lease financing source that it rarely uses has the best deal for a specific vehicle. Or, if a source is less profitable for the dealership than other sources, it may not choose to mention that source until it realizes we are likely to ask for, and be offered, the source by another dealer.

Some dealers use only one or a few lease financing sources; so they may not have the best source available to them. Since we know the best source, we can often shop until we find a dealer that offers that source. Unfortunately, there is no way for you to get the kind of information on multiple leasing sources needed to do such aggressive lease shopping. You will have to rely on dealers to volunteer the best source.

The following questions and answers are intended to help you think about your leasing options and understand and evaluate the information you collect from dealers on Worksheet 3.

### ***What is a lease?***

A motor vehicle lease is a legal agreement between you and the leasing company, specifying the terms and conditions for leasing a specific vehicle. Typically, the leasing company and the dealer are not the same entity; rather, the dealer acts an agent for the leasing company. For ex-



Worksheet 3: Vehicle Lease Cost Comparison		Name of Dealer:				
<b>A. CAPITALIZED COST</b>						
1. Agreed Upon Value of the vehicle. (In many cases, this will be the amount in item 4, "Total: cost of vehicle," on Worksheet 2. But in some cases, the total price of the vehicle will be different for a lease than for a purchase because factory-to-dealer incentives are different for purchases than for leases, because document processing fees and similar fees don't apply to leases, or for other reasons. This difference generally arises only when dealing with manufacturer-sponsored lease financing sources. Ask the dealer if there will be a difference. If so, use Worksheets 1 and 2 to get a bid for the agreed upon price for a lease.)						
2. <b>Add:</b> Assignment Fee, if financed through lease.						
3. <b>Add:</b> any additional charge for Gap Insurance.						
4. <b>Add:</b> charge for Additional Contracted Miles (number of extra miles contracted for <i>times</i> charge per mile).						
5. <b>Total:</b> Gross Capitalized Cost not including taxes (total of A1 through A4).						
6. <b>Subtract:</b> capitalized cost reduction: a. Amount you will put down in cash. b. Any credit you will get for the net value of a trade-in. c. Any factory-to-customer rebate you will sign over to the dealer. (Be sure rebates you are aware of apply to a lease and not just a purchase.)						
7. <b>Total:</b> Adjusted Capitalized Cost (A5 <i>minus</i> all items in A6)						
<b>B. RESIDUAL VALUE</b>						
1. MSRP of base vehicle, including freight or destination charge (from window sticker of vehicle or pricing book, printout, or website).						
2. <b>Add:</b> MSRP of factory-installed options (from window sticker of vehicle or pricing book, printout, or website).						
3. <b>Add:</b> discount included in option package(s) price, if the MSRP price of any option package included in B2, above, was "net," after the subtraction of a discount. (You can find any such discount on the window sticker of the vehicle or in a pricing book, printout, or website.) For an example, see the "Option Discount Adjustment" text in this article on page 13.						
4. <b>Add:</b> price for dealer-installed options (based on the price for these options quoted by the dealer).						
5. <b>Total:</b> amount to residualize ( <i>total</i> B1 through B4).						
6. Residual Percentage (quoted by dealer).						
7. Residual Value (B5 <i>times</i> B6)						
<b>C. MONTHLY DEPRECIATION</b>						
1. Adjusted Capitalized Cost not including taxes (from A7).						
2. <b>Subtract:</b> Residual Value (from B7).						
3. <b>Total:</b> depreciation and any other amortized amounts, not including taxes (C1 <i>minus</i> C2).						

(Worksheet 3 continues on next page)

4. Number of months of lease.					
5. Monthly depreciation (C3 <i>divided by</i> C4).					
<b>D. MONTHLY LEASE FINANCE CHARGE</b>					
1. Adjusted Capitalized Cost, not including taxes (from A7).					
2. Residual Value (from B7).					
3. <b>TOTAL</b> (D1 <i>plus</i> D2).					
4. Money Factor (from dealer) (if dealer quoted an interest rate, divide the rate by 2,400 to get the money factor).					
5. Monthly Lease Finance Charge (D4 <i>times</i> D3).					
6. (For Ford Motor Credit leases only) Additional monthly Ford Acceptance Charge (see note below).					
7. Total Monthly Lease Finance Charge (D5 <i>plus</i> D6).					
<b>E. BASE MONTHLY PAYMENT (not including taxes)</b>					
1. Monthly depreciation (from C5).					
2. Monthly Lease Finance Charge (from D7).					
3. Base monthly payment, not including taxes (E1 <i>plus</i> E2).					
<p>Note: For Ford Motor Credit leases, you must add an extra Ford Acceptance Charge, which is really a hidden assignment fee, to get the monthly lease finance charge. Calculate this Ford charge as follows: Agreed Upon Value (from A1) <i>times</i> 0.00111 <i>equals</i> Ford Acceptance Charge. Enter this charge at D6, above.</p>					

ample, if you leased a new Ford, the dealer might be XYZ Ford but the leasing company might be Chase Manhattan or Ford Motor Credit. As a practical matter, a lease is simply an alternative way to finance a vehicle.

#### ***What is a vehicle leasing company?***

A “leasing company” or “lease financing source” is an institution that purchases the vehicle from the dealer and leases it back to you. This may be a financial arm of one of the manufacturers, such as, Ford Motor Credit, General Motors Acceptance Corporation, or Toyota Motor Credit. There are, however, independent leasing companies, frequently backed by banking institutions, such as, Chase Manhattan, Wells Fargo, General Electric Capital Auto Lease (GECAL), and Bank of America. The best leasing company for a specific vehicle varies based on market conditions and regional availability of particular leasing companies.

#### ***What is the lease term?***

The “lease term” or “lease duration” is the amount of time you have contracted to lease the vehicle. Twenty-four- and thirty-six-month leases are frequently advertised, but other terms are available from some leasing companies.

#### ***What is the capitalized cost?***

“Capitalized cost,” often referred to as “cap cost,” should be separated into “gross” cap cost

and “adjusted” cap cost. Gross cap cost includes the agreed upon price of the vehicle and any fees, extended service plans, gap insurance premiums, or other add-ons that you are required to pay up front. Adjusted cap cost is the gross cap cost less any reductions resulting from a trade-in, cash downpayment, or rebate. Adjusted cap cost is the amount actually financed with the lease. Many lease ads and some dealerships imply that cap cost is the same as MSRP. This is untrue. Leasing a vehicle with a cap cost of MSRP is about the same as buying a vehicle for full sticker price, which is much more than most customers should pay.

#### ***What is the capitalized cost reduction?***

This is lease-speak for a downpayment. Your combination of any cash downpayment, value of a car you trade in, and rebate you assign to the dealer results in a reduction of the capitalized cost. The bigger your capitalized cost reduction (the more you put down), the lower the adjusted cap cost—amount you will be financing—and the lower your monthly payment will be.

#### ***What is the residual value? The end of lease purchase price? The option to purchase?***

“Residual value” is the value the leasing company theoretically estimates that the vehicle will have at the end of the lease term. It is usually figured as a percentage of MSRP. For example, a

\$20,000 MSRP vehicle with a residual percentage of 60 percent on a two-year lease is estimated to be worth \$12,000 (\$20,000 *times* 60 percent *equals* \$12,000) at the end of those two years.

The difference between the residual value and the adjusted capitalized cost is the amount of principal you will have to pay off during the time of your lease (you will also have to pay a finance charge, or interest, on the amount of money the leasing company has tied up in the car). Therefore, the higher the residual value, everything else being equal, the lower your payments.

Residual percentages and residual values vary with the term of the lease and the number of miles driven per year. Some makes and models of vehicles are known to keep their resale value better than others, and therefore have higher residual values. In addition, manufacturers sometimes agree to buy back cars at lease-end at more than the car is likely really to be worth on the market. By subsidizing the residual value in this way, the car manufacturer keeps lease payments lower than they otherwise would be in hopes of leasing more cars. A vehicle’s residual value sometimes bears little relation to the vehicle’s real expected future market value, but the residual value figure nonetheless is very important because it is used to calculate your monthly payments.

Generally, lease contracts give you the option to purchase your vehicle at the end of the lease for

the residual value. For example, if the residual value will be \$12,000 after two years, you'll be able to purchase the car by paying the leasing company \$12,000 at the end of your two-year lease term—plus an additional purchase option fee required by many plans.

Sometimes the option to purchase is not at the

stated residual value, but rather is at "market value" plus any applicable purchase option fee. "Market value" may be computed by using one or more market "guides" such as "Blue Book" or "N.A.D.A."

Although you have an option to purchase, you may not want to. You can always return the vehicle

at the end of the lease.

Even if you don't want the car at the end of the lease, it might make sense to purchase it. If you have the option to purchase at a stated residual value, you may discover that the actual market value of the vehicle at the time your lease ends is higher than that contracted residual value. In that

## Car Shopping Information Resources

There are many information resources that can help you in your car shopping. We list a few here.

### Invoice and List Prices

Since you will want to get dealers to bid an amount above or below invoice, you may find it useful to have detailed information in advance on the invoice price of a vehicle—for the base vehicle and each available option. This information is available free at many websites, including the following: [www.carprice.com](http://www.carprice.com), [www.kbb.com](http://www.kbb.com), and [www.carpoint.com](http://www.carpoint.com).

The best price information sites on the Web allow you to "build" a vehicle—meaning that you can select options and see how the invoice and list price of the vehicle increase with each added option. These sites are designed to allow you to add only options that are possible; you can't add power seats, for example, if you have already added a "comfort package" that includes power seats. The [www.carpoint.com](http://www.carpoint.com) website, although not valuable as a Web buying service, has pricing information that allows you to build a car in this way (though it didn't work perfectly in our tests). Even better are the sites that offer the "Web Carbook" program maintained by Chrome Data. Chrome Data sells this program to credit unions and dealers to put on their websites for their customers. If you go to our [www.checkbook.org](http://www.checkbook.org) website, we will give you a link to a site (possibly a credit union site) that has the Chrome Data program (or to another site if equally good options become available in coming months).

You can also get invoice price information in books published by Pace Publications, St. Martin's Press, and others. You can find these books in libraries, bookstores, and many banks and credit unions.

Another alternative is to have a printed report with invoice price information sent to you by mail or fax. Consumer Reports Auto Price Service (800-205-2445) offers these reports for \$12 for the first model you request and \$10 for each additional model. Car Price Network (800-227-3295) offers reports for \$11 for the first model you request and \$7 for each additional model. Fighting Chance (800-288-1134) offers a report that includes invoice price information and other useful data for \$24.95.

### Rebates and Incentives

It can be helpful, in prompting dealers to give you aggressive price bids, to let them know that you know of any currently available factory-to-dealer incentive programs. Also, so that you can anticipate the likely final cost to you of a car you are considering, it is useful to know if there are any factory-to-customer rebates in effect. On our [www.checkbook.org](http://www.checkbook.org) website, *CHECKBOOK* subscribers can download free our CarDeals newsletter, which contains detailed information on rebates and factory-to-dealer incentives being offered by car manufacturers. Non-subscribers can download this information for \$7.

Alternatively, you can call us (202-347-7283) to purchase an issue of *CarDeals* for \$7, to be delivered by fax or first class mail. Some public libraries subscribe to *CarDeals*; if yours doesn't, you might encourage it to, so you and others can have free access to the printed information.

### Dealer-Installed Options

For many Acura, Honda, and Volvo models and some models of other makes, the manufacturers rely on dealers to install a number of important options. Since you will want to get each dealer to bid on any dealer-installed option you might want, it is helpful to know which options may be dealer-installed on your model. One way to get this information is to make a visit to the CarBargains website ([www.carbargains.org](http://www.carbargains.org)) and go through the process of signing up for the CarBargains service but **stop** before giving your credit card information. Just select the make, model, and style of vehicle you want as if you were signing up for the service. If there are important dealer-installed options for the make, you will get to a screen that asks you to pick options you might want. If you get to a screen that asks you for your *CHECKBOOK* password or asks for your name and you have not yet seen a screen with a list of dealer-installed options, then there are no common dealer-installed options for your model.

### Used Car Prices

A number of websites offer free information on used car pricing. This information is useful in valuing a car you plan to sell or trade in. Useful

sites include the following: [www.autosite.com](http://www.autosite.com) and [www.edmunds.com](http://www.edmunds.com).

You can also get a sense of the value of your used car by looking at used car listings at [www.cars.com](http://www.cars.com). Or you can check classified ads in *The Washington Post*.

In addition, there are books with used car price information, published by Pace Publications, St. Martin's Press, and others and available in libraries and bookstores. Many banks and credit unions have copies of the *N.A.D.A. Official Used Car Guide* or the *Black Book*, published by National Auto Research.

Consumer Reports (\$10 per car) and Car Price Network (\$8 for the first car and \$4 for each additional car) will mail or fax used car price information to you. Their phone numbers are listed above.

Remember that these information sources give only a very rough guide to your car's value. The best way to find out what your car is really worth wholesale is to shop it around to several used car dealers.

### Low Prices on Extended Service Contracts

We have put together a list of the lowest priced dealers we have found for extended service contracts. *CHECKBOOK* subscribers can download this list free from [www.checkbook.org](http://www.checkbook.org). Non-subscribers can download it for \$10. Alternatively, you can order the list by fax or mail by calling us at 202-347-7283 (\$3.50 for *CHECKBOOK* subscribers and \$15 for others).

### Target Prices

At [www.carbargains.org](http://www.carbargains.org), you can view a table each month with target prices for five vehicles in a specific category (say, high-end sport utilities or mid-priced family sedans). These prices reflect low (though not the lowest) bids our CarBargains service has recently gotten around the country.

### Specially Subsidized Leases

We are also working on a newsletter and Web service that will report which models of new vehicles currently have subsidized lease programs available for them and that will tell how large the subsidy is. When this service becomes available, we will notify Web-registered *CHECKBOOK* subscribers by e-mail.

situation, you might want to purchase the car at the residual value and then sell it. Alternatively, you might be able to work out a deal for your leasing company to pay you something not to purchase the vehicle.

On the other hand, if you do want the car at the end of the lease, you still might not want to exercise your option to purchase. This will be true if the purchase will have to take place at the stated residual value and you know that that stated value is higher than the vehicle's market value. Again, you might be able to negotiate with the leasing company; you might offer to purchase the car at its actual market value and the leasing company might accept your offer since it won't be able to get more for the car if you turn it in.

***What is a money factor? How does it relate to an Annual Percentage Rate (APR)?***

A leasing company may use either a "money factor" or an "Annual Percentage Rate of interest" (APR) to express the way the finance charge will be calculated on a lease. A "money factor" is roughly equivalent to an APR divided by 2,400. For example, a money factor of 0.00333 approximately equals an APR of eight percent (eight divided by 2,400 equals 0.00333). Sometimes dealers don't mention the decimal places in a money factor, assuming that you will know that the decimal places are implied. For example, if the money factor is .00333, the dealer might simply say the money factor is ".333."

Money factors are different for different models of vehicles and lease terms, and different leasing companies usually have different money factors. Everything else being equal, a lower money factor means lower payments.

When manufacturers want to push leases or want to push sales of a particular vehicle model, they often subsidize the money factor or APR—offering finance charges lower than they would be if based on general market interest rates.

***Why might a dealer offer a different purchase price (agreed upon value) for a vehicle if you will be leasing it than if you will be purchasing it outright or with traditional financing?***

If a manufacturer is subsidizing leases by offering a special money factor or APR or an unusually high residual value, the manufacturer might not also give factory-to-dealer incentive payments to the dealer on leased vehicles. Or the manufacturer might give lower incentives on leased vehicles than on purchased vehicles. In such situations, it is not surprising that the dealer's purchase price (agreed upon value) for a leased vehicle might be higher than the price it will offer for a purchased vehicle, for which the dealer will get a full incentive payment.

[Insert Photo]

***What is an assignment fee?***

Many leasing companies charge an "assignment fee," which is essentially a processing fee, to set up a lease. The amount varies from leasing company to leasing company. A \$300 or \$400 fee is common. Some dealers inflate the assignment fee and keep the portion they don't have to turn over to the leasing company as extra profit. Some leasing companies hide the assignment fee in the monthly lease finance charge calculation rather than expressing it as a separate fee.

***How does mileage affect lease charges?***

"Allowable miles" are the miles the lease allows you to drive at no additional charge. Typically this is between 12,000 and 15,000 miles per year.

"Additional contracted miles" are miles you contract for in advance, above the "allowable miles." Additional contracted miles are contracted for, if you want them, at the time the lease is executed for an extra charge, usually expressed as cents per mile.

"Excess uncontracted miles" are miles you use above the "allowable miles" and above any additional "contracted miles" you've built into the lease. You are charged a penalty for excess uncontracted miles at the end of the lease. This penalty, usually expressed as a cents per mile charge, can be quite costly. Try to estimate accurately in advance the number of miles you will drive the vehicle per year.

***What is an early termination penalty?***

Most leases call for substantial penalties if you end your lease before the contracted term. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be. Make sure the

lease duration you choose is correct for you. If you think there is a significant chance that you will not be able to make payments throughout the duration of your lease, a lease is probably not a good option for you.

***What is gap insurance?***

"Gap insurance" is for your protection in the event that your leased vehicle is stolen or totaled in an accident. From the lease companies' point of view, total loss of the vehicle is a form of early termination of the lease. Typically, your auto insurance company would pay off the claim. But what happens if the market value of the vehicle is less than the amount you owe the leasing company? This possible difference is known as the "gap," and you would be responsible for paying it to the leasing company. Some leases provide a "gap waiver," protecting you against such an insurance shortfall if you meet certain insurance requirements, but others do not. Gap insurance covers your risk in those leases that do not offer a "gap waiver." It makes sense to get this insurance. You can buy it from the leasing company at the time you agree to the rest of the lease.

***How are sales, personal property, and other taxes figured?***

State and local laws vary as to how sales taxes and other applicable taxes are handled on a lease. Maryland levies a five percent tax on the gross capitalized cost; Virginia levies a three percent tax on the gross capitalized cost (with some local jurisdictions imposing small additional taxes); and the District imposes a 10 percent tax on lease payments.

You don't generally need to know the taxes you will pay in order to compare dealers. That is because, in the Washington area and most other states, the amount of tax you pay depends on where you live, not on the dealer. You can expect to pay the same tax rate regardless of which dealer you choose.

***What is the option discount adjustment?***

Car manufacturers sometimes offer special discounts on an option package, and leasing companies often treat these discounts specially in calculating a vehicle's residual value.

For example, the invoice for a vehicle model might show an MSRP of \$1,000 for a "power package" and also show a \$600 discount for that "power package." The result is a net price of \$400 for the "power package." Vehicles with the "power package" have an MSRP \$400 higher than vehicles that don't have the package. But when this model of vehicle is leased, the MSRP that is used to calculate the residual value (residual value equals MSRP times residual percentage) will include the undiscounted price of the "power package" (\$1,000) rather than the \$400 discounted price of the package. In other words, the

\$600 package discount is added to the MSRP before the residual value is calculated.

This peculiar piece of bookkeeping is good for you. It means your residual value will be higher—and your payments lower—than they otherwise would be.

### Other lease language

You will encounter a number of other features and requirements in auto leases, including—

- A “security deposit,” typically one month’s lease payment rounded up to the nearest twenty-five dollars, is usually due upon execution of a lease. You are entitled to the return of the security deposit at the end of the lease unless it must be used to pay off excess charges you have incurred.
- With a lease, unlike a loan, your first month’s payment will be due at the beginning of each month. So you will have to include your first month’s payment in the up-front amount you owe the dealer at the start of the lease.
- Lease plans have stringent “excess wear and tear” provisions. You will be charged if the leasing company judges that you have exceeded normal wear and tear. Some leasing companies are more demanding than others when making this judgment.
- If you choose not to purchase the vehicle at the end of your lease, some leases charge an administrative fee, usually referred to as a “disposition fee.”
- Leased vehicles usually have stringent insurance coverage requirements. You may be required to buy more insurance than you would choose to buy if you purchased the vehicle.

## Demos, Factory Orders, and Other Alternatives

You will encounter a number of variations in new-vehicle purchase arrangements. Some deserve a little discussion.

### Demonstrators

A dealer may offer you a demonstrator, or “demo,” at a “special” price. Demos are new vehicles that have been driven for days, weeks, or months as personal vehicles by salespersons or other dealer personnel. The dealer will want you to believe that by compromising a bit you’ll get a great deal.

Our advice is not to consider a demo until—by going through a full dealer-by-dealer competitive bidding process—you have found out what a brand new vehicle will cost. Then, if the demo is significantly cheaper than the best price you’ve found, you may want to buy it. Remember, however, that the mileage on the demo, like any mileage you put on, will reduce the vehicle’s life

and will detract from its resale value. And keep in mind that dealership personnel don’t always treat the vehicles they drive with kid gloves.

### Factory Orders

If you can’t find the vehicle you want on a dealer’s lot, you may be able to special-order it from the factory. By factory ordering, you can often get the color and the exact selection of options you want. The wait for a special-ordered domestic vehicle is usually six to eight weeks, but might be considerably longer if, for example, there’s a strike at the factory.

Foreign vehicles generally can’t be factory-ordered. But a dealer can sometimes specially order a vehicle from a U.S. port or distribution point from which vehicles are shipped to many dealers.

Depending on the vehicle and the dealership, the price for a factory-ordered vehicle may be a little higher or a little lower than the price for a vehicle off the dealer’s lot. The difference is usually small. Our suggested script for getting competitive bids set out on page 2 asks each dealer whether there will be any difference in the bid if you decide to factory-order.

A significant cost difference might occur on a factory order if a factory-to-customer rebate is in effect. You get the rebate, if any, that applies at the time your vehicle is delivered; a rebate in effect at the time of your order may not be there when the vehicle arrives. Factory-to-dealer incentive payments are also determined by the time a vehicle is delivered.

A problem with factory-ordering is that a dealer may intentionally stall. If you’ve shopped hard for a good price and a dealer sees you about to take your business to the competition, the dealer may quote you a very low price on a factory order as a way of keeping you—in effect, to take you off the market. Then the dealer may move very slowly in placing your order or neglect to tell you when your vehicle comes in. As you get more and more impatient, the dealer may sympathize with you and suggest that you take another vehicle at a higher price. By then, the dealer hopes, your commitment to price competition might have waned.

You can reduce the risk of such stall tactics by writing into your purchase order: “customer may withdraw from all obligations and have deposit returned if dealer does not within two weeks provide documentation showing that vehicle has been ordered or if vehicle is not delivered within eight weeks.”

Another possible glitch in the factory-order approach has to do with the valuation of your trade-in, if you have one. The dealer may note on the contract that your trade-in vehicle is “subject to reappraisal.” Chances are that the dealer’s valuation will be considerably lower when the new vehicle arrives. If so, you can simply sell your used vehicle elsewhere and pay cash in lieu of the specified trade allowance. A better approach is to say on the purchase order: “trade-in allowance

will not be reduced unless vehicle has been in an accident or has had a mechanical breakdown.”

If you are ordering a vehicle that is configured with unusual options that will make it hard to sell, a dealer might reasonably expect a deposit of several hundred dollars. But for a factory-order of a vehicle with popular options, a deposit of \$100 should be sufficient. The less you put down, the more leverage you’ll have for quick service.

### Dealer Exchanges

Another response if the vehicle you want is not on a dealer’s lot is for the dealer to arrange to get what you want from another dealer. Dealers have ready access to data on the vehicles on other dealers’ lots. Your dealer may simply buy a vehicle from another dealer or may exchange vehicles. The dealer may charge you a little more for a vehicle secured this way than for a vehicle already on the lot. The extra charge is to cover the time and expense of getting the vehicle—more if the vehicle has to be secured from a distant dealer. But the charge for this service is usually modest and a dealer exchange often is your best bet. Don’t put down a large deposit on the promise of an exchange. A deposit of \$100 or less should be sufficient to protect the dealer and will not be a disaster for you if for some reason the exchange doesn’t work out and the dealer is slow in giving your money back.

### Last Year’s Models

When new models come out, a dealer may offer you a “special” price on last year’s model. The price of the old model may be lower in part because of the price increases that typically occur with each new model year. Another reason for a lower price is that manufacturers often give dealers special allowances on old models as soon as new models are introduced. Otherwise, dealers might stop ordering inventory long before the end of the model year because of concerns about being stuck with a lot full of old vehicles.

Should you buy last year’s model? If you plan to sell your vehicle within a year or two, the answer is probably no. If you plan to hold on to the vehicle for eight or 10 years, the answer may be yes. But, of course, the right decision hinges on how good a price you are quoted for each year’s model.

The problem with buying last year’s model if you plan to keep it only a year or two is that its resale value will be much lower a year or two down the line than the resale value of this year’s model.

The arithmetic becomes quite different, however, if you hold onto your vehicle for a number of years. As vehicles age, the difference in value between model years shrinks. So what you save at the time of purchase by buying a year-old model isn’t significantly offset by reduced value at the time of resale.

Another factor must be considered in all this, however. The new model year vehicles may have features, such as side airbags, that are not avail-

able on previous-year vehicles.

(Interestingly, a model's price won't always fall when new models come out. If the new models are priced substantially higher, there may be so many consumers interested in buying the earlier models that demand may actually push up prices of the earlier models. For example, several years ago our CarBargains service found that prices dealers were willing to bid on previous-year Toyota Camrys increased when the prices for the new model year were announced.)

## Alternative Buying Strategies

The competitive bidding strategy that is used by the CarBargains service and that this article has told you how to do for yourself is the right way to buy or lease a car. You will encounter other strategies. We'll describe a few here and tell you why they are inferior.

### Internet Buying Services

Recently, the most hotly hyped strategy is shopping over the Internet. It is not as good as it sounds.

Most Internet car-buying services are just a new kind of paid advertising outlet for car dealers. Each dealer pays the Internet service to be that service's listed dealer in a specific territory. The dealers make no meaningful commitment to offer good prices, and the services have no way of knowing whether the prices the dealers offer consumers are good or bad.

The only real power you have when shopping for a new car is the threat of competition. Internet buying services don't make dealers compete for your business. The only competition these Internet services are interested in is to find out which dealer is willing to pay the Internet service most to be listed as the exclusive dealer for a territory.

The dealer listings available through these Internet services are no better than the Yellow Pages. In fact, they are probably worse because they create the illusion that the prices the dealers will give consumers will be unusually low. They won't be. The services, in effect, dress the wolf in sheep's clothing.

*Automotive News*, a leading trade newspaper, described in its December 12, 1996 issue how each of the major Internet services operates. Typical is Autobytel, which, according to *Automotive News*, was at that time charging dealers a start-up fee of \$2,500 to \$6,500, a monthly fee of \$500 to \$2,500, and an annual fee of \$2,500, and which was kicking back to dealers a commission for online approvals of Autobytel-sponsored loans and leases.

In theory, you could use multiple Internet services to identify each service's nearest dealer and

then could request prices from each dealer over the Internet. That competitive approach makes sense, but using the Internet services to find the dealers and get price quotes can be needlessly time-consuming. You must fill out an online form for each service and then wait for each dealer's Internet service contact person to give a price—usually by a phone call. *Money* magazine, when it tested these services, reported that its “correspondents had to make repeated and insistent phone calls to local dealers provided by the Internet services to get a price quote.”

You can get better prices faster and more easily by selecting five or more conveniently located dealers from the phone book and calling each using the script we have suggested, then confirming the best bid by fax or e-mail.

### Auto Brokers

There are companies that call themselves auto brokers or buying services. Such brokers typically expect you to pay them a fee, in exchange for which they promise to get you a “great price.” You pay the fee and a few days or weeks later the broker offers you a vehicle and a price. Unfortunately, you have no way of knowing whether the price the broker has delivered is good or bad. You don't know whether the broker simply called a single dealer with which the broker has an ongoing relationship—and perhaps splits profits. You might as well just call a single dealer yourself. You won't find it hard to find a dealership that will assure you that it is giving you a “great price.” In fact, many brokers are former car dealers.

It is useful to contrast the auto broker approach to the approach of the CarBargains service. With CarBargains, you get the evidence that a bidding process has been conducted. You get the actual bids from at least five nearby dealers. You get the names of the sales managers or fleet managers responsible for the bids. Also, you know that the dealers have no relationship with CarBargains: the service simply gets bids from the dealers closest to your home—or from other dealers if you request that specific dealers be included in, or excluded from, the bidding. It is an open and documented process.

### One-Price Dealers

Recognizing that many consumers dread the haggling that often occurs at dealerships, some dealerships have adopted a policy of putting a price tag on each vehicle on their lots and sticking to that price. Although this approach may make the shopping process more pleasant than a haggling process, the ticketed prices at these dealers tend not to be as good as you can get from other dealers by using a competitive bidding process. Dealers that are not one-price dealers make substantial profits on some customers and thin profits on other customers, resulting in an average profit

margin that they find acceptable. By using competitive bidding, you will assure yourself of being one of the low-profit customers. One-price dealers can be expected to make roughly the same profit on all customers—about the same as the average profit of other dealers. By using a competitive bidding process, you avoid haggling and can expect to get a better price than you will get from a one-price dealer.

## Dealer Strategies to Avoid Competition

Not surprisingly, dealers don't like competition. It hurts their profits. The industry continually experiments with ways to weaken competition. Here are a few industry strategies.

Ford Motor Company has started a program to purchase all of the dealerships in certain metropolitan areas—creating a single dealership with several showrooms, but presumably no competition among showrooms. Ford has so far succeeded in making these dealership purchases in several markets, including Tulsa, San Diego, Oklahoma City, and Salt Lake City. Fortunately, in many markets, the independently owned dealerships have resisted. While the dealers may not like competition, they aren't willing to give up their own businesses—often businesses that their families have owned for generations.

There are also a number of large corporations that are acquiring multiple dealerships. Two of the largest examples are AutoNation USA and United Auto Group. If these dealerships are spread around the country, the corporate acquisitions don't have much effect on competition, but if a corporation acquires competing dealerships in the same community, competition will suffer.

As we have noted, Web advertising has been developed in a way that minimizes competition. The large Internet auto buying services, such as, CarPoint and Autobytel, have chosen not to set up systems that make it easy for consumers to get quotes from multiple dealers. Rather, each Internet service typically refers you to a single dealer. That is what the dealers want, and the Internet buying services can get paid more by dealers if they can refer customers who are not getting competitive prices.

Leasing has also proven to be a major obstacle to competition. Because it is so confusing and because so much information has to be collected from each dealer in order to compare the lease deals, most consumers can't effectively make dealers compete on leases.

Despite these dealer strategies to limit competition, automobile retailing is still a very competitive business. The approaches described in this article can make competition work to get you a great deal.